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TRANSNATIONAL CORPORATIONS IN SOUTH AFRICA

Role of transnational corporations in South Africa

Report of the Secretary-General

SUMMARY

The present report discusses the situation with respect to the activities of transnational corporations in South Africa. Section one examines the role of sanctions in the South African economy that contributed to the South African Government's repeal of key apartheid legislation. The reaction of the international community to the repeal of such legislation is then examined in terms of measures repealed and measures still remaining in force.

Section two deals with the role of transnational corporations in the South African economy in the 1990s. An examination of the disinvestments/investments recently undertaken by transnational corporations is followed by an analysis of the domestic market and the external constraints on attracting investments from transnational corporations. An optimistic scenario for attracting transnational corporations is then presented in the context of the medium- to long-term prospects of the South African economy. The role of transnational corporations in employment and education of black South Africans is also dealt with.

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INTRODUCTION

1. In its resolution 1991/54 of 26 July 1991, the Economic and Social Council requested the Secretary-General, inter alia, to continue preparing studies on the level and form of operation by transnational corporations in South Africa, including their non-equity business arrangements and their involvement in particular sectors of the South African economy, and to prepare an updated study on the responsibilities of home countries with respect to the transnational corporations operating in South Africa in violation of relevant resolutions and decisions of the United Nations. The Council also requested the Secretary-General to continue examining possible contributions of transnational corporations to the construction of a non-racial democratic South Africa in the economic and social fields, taking into account the special need to train black South African entrepreneurs, and to report to the Commission on Transnational Corporations at its eighteenth session, the Economic and Social Council, the General Assembly and the Security Council on the implementation of the resolution.

I. ROLE OF SANCTIONS AND STATUS OF CURRENT MEASURES

A. Role of economic sanctions

2. The extent to which sanctions have played a part in compelling the repeal of major apartheid legislation can be perceived from the fact that the African National Congress (ANC) has continued to call for their maintenance until democratic arrangements have been put in place, as well as conversely, from the fact that the white minority Government, while having claimed for many years that sanctions were at worst an irritant and certainly could not be employed to compel a change of its policy, has for the past two been campaigning strenuously to persuade the international community to lift existing sanctions.

3. Sanctions have had the effect of increasing the amount of economic opportunity forgone in South Africa. According to one estimate, in 1990 the South African gross domestic product (GDP) would have been 20-35 per cent higher than the figure actually recorded had the Government neither pursued apartheid policies nor sought to build a less dependent economy. 1/ According to another estimate, South African gross national product (GNP) was 45 per cent lower in 1987 than it "would have been had the economy been able to sustain the growth rates that it achieved between 1945 and 1975 through the years from 1974 to 1987". 2/

4. Sanctions have also exerted pressure on the country s balance of payments by raising the prices for imports (and thereby contributing to a higher inflation rate) while lowering the prices for exports. However, sanctions have stimulated import substitution in sectors of the economy where the country had no particular comparative advantage.

5. As regards trade sanctions, their impact has been limited, since over the sanction years there was a reshuffling of South Africa's main trading partners (as shown in table 1). As some countries increased their trade with South Africa, the gap created by declining trade with other countries was filled. Although there were sharp changes in South Africa's major trade positions from year to year over the sanctions period, a pattern characterized by four big suppliers of imports and five big receivers of exports remained. Overall, the European Community's imports from South Africa rose by more than one third during the years of the greatest impact of sanctions, that is, between 1985 and 1988. 3/ South Africa also succeeded over the sanction years in undertaking a successful export drive into the African markets while receiving from those markets much less in the way of imports, as shown in table 2.

6. South Africa's heavy dependence on foreign capital markets has made financial sanctions very effective. South Africa habitually ran a balance-of-payments deficit at times of economic growth. The faster the growth, generally speaking, the larger the deficit in its current account. This deficit would be covered by capital flows into the country, compensating in the capital account for shortfalls in the current account. Since South Africa's exclusion from capital markets following the financial crisis of August 1985, the South African authorities have had no option but to pursue domestic macroeconomic policies that could result in substantial surpluses in South Africa's current account. Such an approach has enabled them to repay interest and principal on their overseas debt and to continue to finance their international trading activities, but those economic policies have had the effect of restraining growth.

7. Coupled with the financial sanctions has been the decision by many transnational corporations to disinvest from South Africa. That disinvestment has had consequences both for the economy and for society in South Africa is obvious, but the persistence of various non-equity links, such as licensing and franchise agreements, may have negated the intentions of those who supported this particular kind of sanction. The withdrawal of many transnational corporations from South Africa may also have undermined South African efforts on behalf of rapid economic growth in the short term.

8. The oil embargo has been successful to the extent that its effectiveness is measured not by the import of crude oil into South Africa but by the cost levied on the South African economy, which, according to the Shipping Research Bureau, amounted to between $25 billion and $30 billion over the last 12 years. 4/

Table 1. South Africa's trade with principal trade partners

Suppliers of imports	1986	1987		1988		1989		1990	
		Millions of US dollars	Percentage increase over previous year	Millions of US dollars	Percentage increase over previous year	Millions of US dollars	Percentage increase over previous year	Millions of US dollars	Percentage increase over previous year
Germany, Federal Rep. of (former)	1 941	2 548	+31	3 332	+31	3 263	-2	3 045	-7
Japan	1 249	1 882	+51	2 047	+9	1 737	-15	1 491	-14
United Kingdom	1 247	1 557	+25	1 911	+23	1 704	-11	1 982	+16
United States	1 158	1 281	+11	1 691	+32	1 659	-2	1 732	+4
France	405	467	+15	581	+24	563	-3	510	-9
Italy	352	456	+30	501	+10	637	+27	694	+9
Netherlands	253	289	+14	336	+16	297	-12	285	-4
Switzerland	243	272	+11	320	+18	315	-1	378	+2
Taiwan Province of China	218	430	+97	630	+47	574	-9	567	-1
Belgium, Luxembourg	210	285	+36	366	+28	385	+5	387	+1
Total top 10 countries	7 276	9 467	+30	11 715	+24	11 155	-1	11 071	-1
Total all countries	11 762	14 111	+20	17 353	+23	16 928	-2	17 087	+1

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Table 1 (continued)

Receivers of exports	1986	1987 Millions of US dollars	1987 Percentage increase over previous year	1988 Millions of US dollars	1988 Percentage increase over previous year	1989 Millions of US dollars	1989 Percentage increase over previous year	1990 Millions of US dollars	1990 Percentage increase over previous year
United States	2 476	1 399	-43	1 575	+13	1 586	+1	1 752	+10
Japan	2 266	2 436	+8	1 955	-20	2 047	+5	1 858	-9
Italy	1 916	1 788	-7	2 163	+21	2 621	+21	2 552	-3
Germany	1 376	1 248	-9	1 727	+38	1 533	-11	1 822	+19
United Kingdom	1 218	1 073	-12	1 434	+34	1 465	+2	1 914	+31
France	486	583	+20	708	+21	755	+7	751	-1
Belgium, Luxembourg	360	385	-7	559	+38	730	-3	662	-9
Hong Kong	348	325	+7	449	+45	435	+31	372	-14
Taiwan Province of China	324	779	+140	1 000	+28	847	-13	984	+16
Spain	283	320	+13	386	+21	432	+12	426	-1
Total top 10 countries	11 053	10 336	-6	11 956	+15	12 451	+4	13 093	+5
Total all countries	18 484	23 541	+27	21 549	-8	22 220	+3	24 105	+8

Source: Adapted from Jonathan Garner, "South Africa's trade partners, 1986-1990", Centre for the Study of the South African Economy and International Finance, research paper No. 6, London School of Economics, 1991. These unadjusted partner country data are based on those in the International Monetary Fund's Direction of Trade Statistics Yearbook, 1990 and on monthly and quarterly Direction of Trade Statistics (various issues).

Table 2. South Africa's trade with African trade partners

(millions of US dollars)

	1985	1986	1987	1988
Suppliers of imports				
Zimbabwe	103.4	130.3	111.5	135.7 a/
Malawi	15.6	17.8	21.3 b/	25.6 b/
Zambia	5.1	5.3 b/	6.4 b/	7.6 b/
Mauritius	1.5	2.0	3.8	4.7
Réunion	0.1	0.1	0.2 b/	0.2 b/
Senegal	0.1	0.2	0.3	0.3
Total top six countries	125.7	155.6 (+24) c/	143.4 (-8) c/	174.0 (+21) c/
Receivers of exports				
Zimbabwe	169.1	210.8	217.4	255.8
Zambia	123.3	129.4 b/	153.3 b/	186.4 b/
Malawi	109.0	74.5	89.4 b/	107.3 b/
Mauritius	44.9	67.7	86.3	109.9
Réunion	30.7	40.4	48.5 b/	58.2
Seychelles	9.0	13.4	14.7	18.9 a/
Senegal	8.3	16.7	20.0	24.0
Total top seven countries	494.2	552.8 (+11.9) c/	629.6 (+13.9) c/	760.4 (+20.8) c/

Source: Adapted from Jonathan Garner, "South Africa's trade partners, 1986-1990", Centre for the Study of the South African Economy and International Finance, research paper No. 6, London School of Economics. The data are based on those in the International Monetary Fund's Direction of Trade Statistics Yearbook, 1990.

a/ Data for some months were estimated.

b/ Data were extrapolated for the entire year (see text of paper).

c/ Figure in parentheses represents percentage increase over previous year.

B. Repeal of apartheid legislation and impact of such repeal

9. In his speech at the opening of Parliament on 1 February 1991, President Frederik Willem de Klerk promised to abolish the legislation that had become known as "the pillars of apartheid". The legislation honouring this commitment was laid before Parliament on 12 March 1991 and had passed through its legislative phases by 17 June 1991 (see document A/45/1052, paras. 74-85). The measures adopted were:

(a) The Abolition of Racially Based Land Measures Act, No. 108, 1991, which repealed the Group Areas Act, No. 36, 1966; the Black Land Act, No. 27, 1913; the Development Trust and Land Act, No. 18, 1936; and the Black Communities Development Act, No. 4, 1984;

(b) The Population Registration Act Repeal Act, No. 114, 1991, which repealed the Population Registration Act, No. 30, 1950.

10. The Government also passed the Interim Measures for Local Government Act, 1991, which provides for the negotiation by local communities of joint arrangements for local government administration; the General Law Amendment Act, which prohibits racial discrimination in title deeds; the Mining Rights Amendment Act, which ends racial restrictions with respect to prospecting and mining rights; and the Child Care Amendment Act, which permits adoption irrespective of race.

11. Despite the repeal of the major apartheid laws, the stratification caused by decades of apartheid still remains. The Population Register is to remain in force until the South Africa Constitution Act of 1983 can be repealed. Various social policies, such as welfare and educational arrangements, are still administered on an "own affairs" basis. The effects of many years of restrictions on land ownership by people classified as "non-white", including forcible removal, eviction and relocation, have resulted in the landless condition of the great majority of "non-white" South Africans. The Abolition of Racially Based Land Measures Act set up an advisory commission to hear claims to compensation of the victims of forced removals; however, its main effect has been to entrench the current ownership and occupation of land. In a press statement (12 March 1991) on the Government White Paper on Land Reform, the African National Congress maintained that "restoration of land to the victims of forced removal must form the underpinning of any credible land policy" (see also document A/45/1052, para. 82).

12. Also remaining in force are various statutes, dating from 1976 to 1981, that established the "independent homelands" of Transkei, Bophuthatswana, Venda and Ciskei (TBVC) and deprived approximately 8 million black people of their South African citizenship. In addition, the Restoration of South African Citizenship Act, passed in June 1986, which purported to allow people to regain their South African citizenship but actually continues to exclude 75 per cent of those who lost it under the statutes, is still in force. Few have applied for reinstatement under its provisions. Furthermore, that Act maintains that children born in TBVC are regarded as citizens of the "homelands" even if their parents hold South African citizenship.

13. Though the main appeal of the Government's legislative reforms is social and cultural, their biggest impact is likely to be on the economy, where they signal the end of legal coercion in both the capital and labour markets. The effect could be a better allocation of resources and higher productivity in the long run. For the immediate future, the repeal of the Land Acts and of the Group Areas Act will have little impact on the lives of the black majority and the thousands of landless peasants, particularly since the existence of the bantustans (homelands) and the forced removal of population has created an unequal pattern of land ownership. 5/ Houses will not be built nor decent services provided unless socio-economic programmes are enacted pari passu that address the glaring inequalities generated by such laws in so far as land and housing needs are concerned. 6/ The simple repeal of the Land Acts may even lead to an increased monopoly over land by affluent whites.

C. Current measures

14. The reaction of the international community to the repeal of apartheid legislation has been favourable to the South African Government. United States economic sanctions against South Africa were lifted by President Bush's executive order on 10 July 1991. President Bush said that the five conditions set down in the Comprehensive Anti-Apartheid Act of 1986 for the lifting of sanctions had been fully met. Prohibition on exports of crude oil and refined petroleum products to South Africa, as set forth in section 321 of the Act, has been lifted. The Rangel Amendment of 1988, which made possible the double taxation of United States firms with investments in South Africa has also been removed. The President's executive order may have little immediate effect, however, for 127 American cities and local authorities in 43 States have imposed restrictions of various kinds on doing business with South Africa and these arrangements remain in force. Furthermore, a ban on all exports to the South African military and police under the 1985 Export Administration Amendments Act remains in effect. Loans by the Export-Import (EXIM) Bank are still not permitted, and the Gramm Amendment to the Bretton Woods Agreement Act (1983) denies United States support for any International Monetary Fund funding for a country that practises apartheid unless certain criteria are met.

15. Following the decision of the President of the United States to remove economic sanctions against South Africa, Israel repealed its own sanctions against South Africa on 14 July 1991. Hong Kong repealed its bans in August 1991, while in September 1991 Austria suspended its economic measures for one year, after which time the Government would assess whether Pretoria had continued to make progress towards dismantling apartheid. The measures lifted also included a prohibition on the sale and transfer of oil and its products.

16. Still in place are the European Community limited oil embargo of 1985, embargo policies adopted by the Organization of Petroleum Exporting Countries (OPEC) and the Organization of Arab Petroleum Exporting Countries (OAPEC) and the United Nations oil embargo. The United Kingdom of Great Britain and Northern Ireland guidelines providing that its North Sea oil may be sold only

to countries that are members of the International Energy Agency (IEA) were lifted on 8 March 1991. Those guidelines covered possible oil exports to South Africa, as the country is not a member of the Agency. According to the United Kingdom Government, however, the removal of the guidelines does not affect oil deliveries to South Africa, as such deliveries are still covered by the European Community oil embargo adopted in 1985.

17. The United Kingdom lifted its voluntary ban on new investment in South Africa after Nelson Mandela had been freed on 11 February 1990. At the same time, the United Kingdom also announced that it would encourage rather than discourage academic, cultural and scientific contacts between the two countries. Since then the United Kingdom has launched a diplomatic effort among its partners in the European Community for the lifting of sanctions. Following President de Klerk's Parliament speech of February 1991, the United Kingdom and Australia announced that they would urge the British Commonwealth of Nations to abandon sanctions. The Commonwealth Committee of Foreign Ministers on Southern Africa, at its meeting in New Delhi in early September 1991, agreed to recommend to Commonwealth Heads of Government, at their meeting in Harare from 18 to 22 October 1991, that Commonwealth countries continue to impose financial sanctions and that, subject to any contrary recommendation that might be made by agreement among the negotiating parties in South Africa, the embargo remain in effect until there was agreement on the text of a new democratic constitution. At their meeting in Harare, Heads of Government of the Commonwealth of Nations agreed to the lifting of cultural, scientific and sporting restrictions and to the progressive removal of other sanctions, given progress in moving towards a new democratic constitution. Japan lifted its economic sanctions against South Africa. The Republic of Korea has lifted economic sanctions imposed on South Africa since 1978, but will comply with a United Nations ban on sales of arms and petroleum.

18. The Organization of African Unity Ad Hoc Committee of Heads of State and Government on Southern Africa, at its meeting at Abuja (Nigeria) in July 1991, reaffirmed the policy of the Organization of African Unity, as adopted by the Assembly of Heads of State and Government of the Organization of African Unity at its twenty-seventh ordinary session held at Abuja from 3 to 5 June 1991, stating that sanctions, as well as other forms of pressure on South Africa, must be maintained until apartheid is abolished.

19. The European Community adopted a gradual approach to the question of sanctions. According to the semi-annual meeting of Government Heads of the European Community held in Dublin on 24 and 25 June 1990, the European Community would "consider a gradual relaxation of the pressure when there is clear evidence that the process of change already initiated continues". The European Council, meeting in Rome on 14 and 15 December 1990, committed member countries to lifting the ban on new investment and to repealing the 1986 sanctions that prohibited new trade in iron, steel and krugerrands once the South African Government had repealed the Group Areas Act and the Land Acts. In February 1991, when President de Klerk announced his intention to abolish these pieces of legislation, the European Community ban on new investment was

immediately lifted (the lifting having effect from 15 December 1990). The European Council, at its meeting on 15 April 1991 in Luxembourg, adopted draft proposals lifting the ban on gold coins and iron and steel products and also published a policy position advocating the repeal of European Community sanctions as one of the best ways of encouraging the South African Government to continue with democratic reforms. Those proposals created a rift with the European Parliament, the majority of whose members had been in favour of retaining sanctions. On 17 April 1991, the Danish Parliament voted against its minority Government's decision to support the European Council policy initiative and, as a result, the European Community was forced to postpone any decision until the Danish Government's position could be clarified. A majority decision of the European Community could determine the issue of gold coins, but a decision on iron and steel products, coming under the Treaty instituting the European Coal and Steel Community, required unanimity. Subsequently, following debates on 19 and 25 July and 14 August 1991, the Danish Parliament agreed to continue blocking European Community attempts to remove the 1986 sanctions until 1 October 1991. In January 1992, Denmark, which was the only member of the European Community to maintain sanctions, agreed to lift them on some South African products. Denmark's decision will thus allow other European Community members to lift measures on South African iron, steel and gold coins. Denmark will maintain its ban on coal and some other products.

20. In February 1991 the European Community announced an expansion of its "positive measures", designed to assist in the eradication of the effects of apartheid, by opening a project coordination office in South Africa with a new budget of 60 million European currency units (ECU) for 1991. The money was to be used for social and development projects and administered through the South African Council of Churches, the South African Catholic Bishops' Conference Committee, the Kagiso Trust and the trade unions.

21. In its resolution 46/79 A of 13 December 1991, adopted by consensus, the General Assembly appealed to the international community to give its full and concerted support to the vulnerable and critical process currently under way in South Africa through a phased application of appropriate pressure on the South African authorities, as warranted by developments, and to provide assistance to the opponents of apartheid and the disadvantaged sectors of society. In the same resolution, the General Assembly called upon the international community, within the context of the need to respond appropriately to ongoing developments in South Africa, to review existing restrictive measures as warranted by positive developments, such as agreement by the parties on transitional arrangements, and agreement on a new, non-racial democratic constitution, and, in view of progress made in overcoming obstacles to negotiations, to resume academic, scientific and cultural links with democratic anti-apartheid organizations and the individuals in these fields; to resume sports links with unified non-racial sporting organizations of South Africa which had received endorsement by appropriate non-racial sporting organizations within South Africa and assist disadvantaged athletes in that country.

22. All these developments have taken place in an international context of intense diplomatic activity. President de Klerk has travelled abroad repeatedly to meet other Heads of State and to signal that his Government's policies on the eradication of apartheid are irreversible. His Government's objective has been to have South Africa reinstated as a full member of the international community. An indication of this was the suggestion (made by the South African ambassador to the European Community, while speaking to the European Parliament's Committee on Development in April 1991) that South Africa be allowed to join the Lomé IV Convention. There have, however, been no indications of when or under what arrangements South Africa will be permitted to return to full membership status in the World Bank or the International Monetary Fund. (It should be recalled, however, that several General Assembly resolutions have specified the terms of the World Bank's or the International Monetary Fund's involvement in South Africa.)

II. ROLE OF TRANSNATIONAL CORPORATIONS IN A LONG-TERM CONTEXT

A. Recent disinvestments/investments by transnational corporations

23. Of the 313 United States companies that had direct investments in South Africa in 1985, 207 have so far disinvested. However, the pace of disinvestment has slowed sharply since the end of 1989. Only 10 United States companies sold or closed their South African operations in 1990, and there were no new announcements of United States companies disinvesting in 1991. Nor, for that matter, have any United States companies with no past history of investment in South Africa begun operations there. Among non-United States transnational corporations the pace of disinvestment has also slowed, with only two companies having disinvested in 1991. One of the two, Shell Petroleum, sold a number of its South African companies, but the motivation for that action was not clear. Recent appreciation of the financial rand exchange rate indicates that disinvestment decisions taken in the first half of 1991 may have been made for business-related reasons.

24. Much international attention, particularly in the anti-apartheid movement, has switched in the past two years from the issue of direct investment to that of non-equity ties. Again, the area of non-equity links between transnational corporations and South African business entities has recently shown little change. Ten United States companies severed their non-equity ties with South Africa in the first three months of 1991, including Motorola Inc. and Xerox Corporation. A number of other companies, including General Electric Corporation, GTE Corporation, Maytag Corporation, and Thermo Electron Corporation, have indicated that they will not renew non-equity links to South Africa when their current arrangements expire. 7/ In August and September 1991, however, six United States companies adopted new non-equity arrangements in South Africa and at least an equal number of companies based in other countries are also believed to have done so. As of 15 September 1991, 192 United States companies had non-equity links of some kind with South African firms.

25. Although systematic figures are not available on recent investments in South Africa by transnational corporations outside the United States, significant evidence of investment interest has been recorded in the financial press. Taiwanese and German investors seem to predominate; Taiwanese direct investment in South Africa totals more than $750 million and provides employment for 40,000 black workers. 8/ The United Kingdom, France and China have also increased or are in the process of increasing their investments in South Africa.

26. A few banks from the United Kingdom, France, Switzerland and Taiwan Province of China are planning to establish or re-establish operations in South Africa.

27. As an indicator of the importance attached by the South African authorities to developments in the sphere of direct investment, the Minister

of Finance, in his March 1991 budget, reduced the surcharge on imported capital goods from 10 to 5 per cent and on intermediate goods from 7.5 to 5 per cent. Since the introduction of value-added tax (VAT) at 12 per cent on 30 September 1991, full tax credits have been available to purchasers of imported capital and intermediate goods. There is currently a lively debate in South Africa on reform of the taxation system so as to encourage all forms of direct investment, foreign and domestic.

28. In addition to those developments, there are indications of rising interest among many transnational corporations in entering the South African economy. Numerous business delegations have visited South Africa in the past 18 months. Many transnational corporations have been actively engaged in analysing market potential in southern Africa. There is a widespread belief in business circles that various factors in the South African economy point to a rapid expansion in the immediate future in sales of consumer products of all kinds. These factors are rising real wages among full-time unionized black workers in the industrial, manufacturing and mining sectors; the abolition of various apartheid controls and restrictions, which will have the effect of increasing disposable income among some black workers; and the apparent existence of a large informal economy where economic activity, though not recorded in the official statistics, is none the less creating a new body of consumers.

29. However, although there is some new investment and considerable interest among transnational corporations, the full growth potential of the South African market is far from being realized. There are both external and domestic market constraints, as shown in the analysis below.

B. Disincentives to attracting transnational corporations

Domestic market constraints

30. The South African economy has been in recession. A decline that had begun in the primary (agricultural) sector of the economy in mid-1988 and embraced the mining, manufacturing and construction sectors in 1989 resulted in a fall in gross domestic product in each of the six quarters from October 1989 to March 1991, as shown in table 3.

31. The length of this recession - the downswing is calculated to have started in March 1989 - has, however, been offset by two factors. First, the recession has been relatively shallow: a 1 per cent reduction of gross domestic product in 1990 and again in the first quarter (annualized) of 1991. This was because the recession began at a time when the rest of the world was still undergoing a mild expansion, so that South African exports continued to perform reasonably well throughout 1990. The downturn in exports for the first quarter of 1991 reflected the slowdown in growth in the industrialized countries that were South Africa's main trading partners. The contraction in the first quarter of 1991 appears to have been particularly sharp in the mining sector, where the continued decline in the United States dollar price

Table 3. Growth in selected components of gross domestic product, at constant 1985 prices, South Africa, 1985-1991

(Percentage)

	1985	1986	1987	1988	1989	Quarter (1990) First	Quarter (1990) Second	Quarter (1990) Third	Quarter (1990) Fourth	Yearly average	Quarter (1991) First	Quarter (1991) Second
Private consumption	-3.5	0.2	3.9	5.2	2.4	1.9	1.8	2.4	1.9	1.5	0.3	-0.5
Government consumption	3.4	2.3	3.7	1.7	3.5	8.2	-11.4	2.4	16.2	1.0	19.5	12.1
Growth domestic fixed investment	-7.0	-18.2	-2.4	8.9	5.4	-2.6	-2.3	-5.4	-5.3	-1.4	-3.5	-7.5
Gross domestic expenditure	-8.0	0.1	3.0	8.2	-0.8	-1.7	2.9	4.1	-18.1	-3.1	18.2	-2.7
Exports	9.2	-1.7	1.5	3.8	9.3	6.2	-10.1	8.2	13.0	3.4	-21.7	30.0
Imports	-14.6	-2.3	4.7	19.8	0.5	8.1	-1.2	35.1	-40.4	-3.1	35.0	28.9
Gross domestic product	-1.2	-	2.1	4.1	2.1	-1.4	-0.8	-1.5	-0.3	-0.9	-1.2	-0.1

Source: South African Reserve Bank, Quarterly Bulletin, June 1991.

of gold led to a fall in the output of ore. Second, private domestic consumption remained relatively buoyant, registering growth of 1.5 per cent throughout 1990. Furthermore, although real domestic fixed investment declined through the period of the downswing, the decline has so far been modest (1.5 per cent in 1990, 3.5 per cent in the first quarter of 1991), particularly in comparison with the sharp contraction that occurred in the period 1984-1986.

32. Domestic price inflation also continues to be a problem for the South African economy, as shown in table 4. After having shown real signs of declining in the third quarter of 1990 from its high of nearly 20 per cent in 1986, the rate of inflation appeared to take off again through the fourth quarter of 1990 and the first quarter of 1991. At 14.6 per cent, the annual rate of increase in consumer prices in April 1991 was high. To a large extent the acceleration in consumer prices reflected the impact of higher oil prices as a result of the war in the Gulf. For instance, the quarter-to-quarter increase in the prices of imported goods, which had slowed to almost zero in the third quarter of 1990, jumped to 59.4 per cent in the fourth quarter, but rose again by only 4.4 per cent in the first quarter of 1991. In view of the Government's continued tight interest and monetary policies, a decline in the rate of inflation was expected in the second half of 1991.

33. Some progress was made in aggregate salaries and wages, with the rate of increase falling to 15 per cent in the first six months of 1991, down from 16.5 per cent in 1990 and 18.5 per cent in 1989. But labour productivity barely changed throughout 1990, partly because of the large number of days lost through strikes and work stoppages. Days so lost increased from 1.5 million in 1989 to 2.0 million in 1990. Higher nominal wages, combined with no increases in labour productivity, resulted in a sharp increase (of 17.2 per cent) in nominal unit labour costs in 1989 and a further increase (of 16.3 per cent) in 1990. Those increases in unit labour costs favoured capital-intensive development when in fact the country needed to create jobs.

34. Even more discouraging, though virtually impossible to quantify, has been the increase in unemployment. Government figures stated that the non-agricultural sector of the formal economy had 5.25 million workers in 1985. That figure expanded to approximately 5.47 million in early 1990, but had fallen back to 5.38 million by the end of the year. Effectively, there has been no growth in employment opportunities in the formal sector of the South African economy for the past six years. Stagnation has occurred in a rapidly changing social context in which two features are important. First, the population of South Africa has been increasing at the rate of 2.5 per cent per annum overall and of 3.4 per cent per annum in the black community. Second, there has been a migration of residents from rural to urban areas. The result is that the population of working age available for employment in the formal sector of the economy has been growing very rapidly, although how rapidly the population has been growing and what the true rate of unemployment in the economy has been remain matters of controversy. 9/ Most analysts agree, however, that black urban unemployment runs between 25 and 45 per cent. 10/ One observer has estimated that the formal sector workforce

Table 4. Changes in selected prices and exchange rates, South Africa, 1985-1991

	1985	1986	1987	1988	1989	Quarter (1990) First	Quarter (1990) Second	Quarter (1990) Third	Quarter (1990) Fourth	Yearly average (1990)	Quarter (1991) First	Quarter (1991) Second
Consumer prices (percentage)	16.9	19.6	13.9	13.2	15.2	12.8	11.8	10.6	14.0	12.3	13.8	11.3
Interest rates (prime lending rates: percentage)	21.5	14.3	12.5	15.3	19.8	21.0	21.0	21.0	21.0	21.0	20.7	- a/
Real effective exchange rates (1985 = 100)	100.0	92.2	104.1	98.3	98.7	103.0	101.7	100.9	100.9	101.6	102.9	103.7 b/
US$/rand exchange rate (middle rate in US cents per rand)	.4489	.4379	.4912	.4400	.3814	.3827	.3766	.3860	.3948	.3864	.3871	.3591 c/

Source: International Monetary Fund, International Financial Statistics, September 1991; and South African Reserve Bank, Quarterly Bulletin, June 1991, and Annual Economic Report, 1991.

a/ Interest rates (not available) were softening in the second quarter. Clearing banks lowered their prime lending rate to 20 per cent on 2 April.

b/ Estimate, derived from figures reported in South African Reserve Bank, Annual Economic Report, 1991, p. 30.

c/ Closing rate on 19 November 1991.

will grow to 18 million by the year 2000. 11/ If so, that will require the creation of a million new jobs every year over the 12 years from 1988. Three years have elapsed without any significant progress in job creation. As the Minister of Finance, Barend du Plessis, said in a speech in Johannesburg on 9 February 1991: "Unless we can now very rapidly increase growth ... by the mid-1990s it will be virtually impossible, if not totally impossible, for anyone to govern this country on account of the number of unemployed." 12/

35. The low growth of the South African economy registered in recent years can be attributed partly to the lack of access to international sources of capital. Without access to foreign loans, the South African authorities have been obliged to run a substantial surplus in the current account of their balance of payments in order to meet overseas debt obligations and to maintain foreign currency reserves for trade purposes and with the slight exception of 1988 (as tables 5 and 6 show), have been very successful in meeting that objective. It has been achieved, however, through steady tight monetary and interest rate policies that have resulted in lower rates of economic growth than would have otherwise been achieved.

36. The absence of consensus on a new constitutional dispensation in South Africa means that there is no clear legal and political environment in which transnational corporations can plan long-term operations. In view of the unstable internal situation in South Africa, some transnational corporations would prefer to wait and see what happens before making a decision to invest there.

37. Anxiety about future economic and financial management in South Africa is another factor unfavourable to attracting foreign investment. Business people have faith in the professional competence of the South African authorities responsible for economic and financial policy and support their attempts to restructure the economy through liberal reform. The South African stock market, though small by international standards and dominated by a small number of oligopolies, is an efficient mechanism for investment purposes. The South African banking system is modernized and efficient. In the absence of monopoly opportunities, business people generally favour liberal economic regimes in which markets may flourish. Many transnational corporations currently take the view that the ideological and policy stance of the Government that may come into power could place the future of these institutions and policies at risk. As a result, they prefer, once again, to wait and see what happens. 13/

38. The small size and relative importance of the South African economy in the context of the world economy is another factor unfavourable to foreign investment. Although South Africa has a population of 37 million and that population is growing rapidly, the country is relatively small and geographically isolated in comparison with other potential investment areas. These include the European Community, the new economies of Eastern Europe and (especially significant for United States transnationals) the emerging free-trade zone that already incorporates the United States, Canada and Mexico.

Table 5. Current account of the balance of payments, South Africa, 1985-1991 a/

(Millions of rands)

	1985	1986	1987	1988	1989	Quarter (1990) First	Second	Third	Fourth	Yearly average	Quarter (1991) First	Second
Merchandise exports b/	19 977	24 336	25 827	31 267	39 085	41 660	39 527	42 852	45 501	42 385	41 840	45 860
Net gold output	15 460	16 719	17 792	19 622	19 228	17 793	18 500	18 008	17 979	18 070	17 328	19 992
Merchandise imports b/	23 165	25 636	28 775	38 940	44 322	43 577	44 140	46 503	42 180	44 100	47 474	50 230
+ Service receipts	5 957	6 365	6 584	7 686	9 754	10 515	10 646	10 591	11 608	10 840	11 425	12 500
- Service payments	13 183	15 735	15 398	16 992	20 857	20 772	21 375	21 244	23 457	21 712	21 611	21 950
Current account balance	5 087	6 114	5 995	2 728	3 108	5 577	3 623	4 232	9 716	5 787	1 489	6 221

Source: South African Reserve Bank, Quarterly Bulletin, June 1991.

a/ Seasonally adjusted annual rates.

b/ Free on board (f.o.b.).

Table 6. Capital account of the balance of payments, South Africa, 1985-1991

(Millions of rands)

	1985	1986	1987	1988	1989	Quarter (1990) First	Second	Third	Fourth	Yearly average	Quarter (1991) First	Second
1. Net long-term capital	-522	-3 162	-1 701	-1 173	-1 230	-937	-1 190	821	-639	-1 945	-583	-326
2. Net short-term capital	-7 799	-1 910	-1 150	-5 035	-3 115	531	-1 000	694	-1 154	-929	1 362	-1 748
Public authorities	75	-71	8	-59	42	-	2	2	16	20	-15	-71
Public corporations	-157	-224	-40	35	97	-45	9	-16	1	-51	-38	-125
Non-bank private sectors	-7 717	-1 615	-1 118	-5 011	-3 254	576	-1 011	708	-1 171	-898	1 415	-1 552
3. Net capital movements (1 + 2)	-8 321	-5 072	-2 851	-6 208	-4 345	-406	-2 190	1 515	-1 793	-2 874	779	-2 074
4. Current account balance	5 087	6 114	5 995	2 728	3 108	2 276	811	450	2 250	5 787	973	1 299
5. Change in net gold and other foreign reserves (3 + 4)	-3 234	1 042	3 144	-3 480	-1 237	1 870	-1 379	1 965	457	2 913	1 752	-775
6. Change in liabilities related to reserves a/	1 998	-2 195	-1 257	1 800	2 626	-866	343	-1 544	33	-2 034	-215	644

Source: South African Reserve Bank, Quarterly Bulletin, June 1991.

a/ Usually short-term purchases of foreign exchange on futures markets. A minus sign denotes a decrease in this form of debt.

/...

39. Another major domestic market consideration for many transnational corporations contemplating direct investment in South Africa may be the labour supply. Although only approximately 12 per cent of the South African labour force is unionized, the unions in the manufacturing, industrial and mining sectors have been successful in increasing wages. Transnational corporations also expect the non-wage labour costs of operating in South Africa to increase because of the strong political demands for more aggressive governmental policies in health, housing, education and welfare. Furthermore, the level of black education has been so poor over the past 15 years (since the upsurge of continuous unrest in the townships in 1976) that the creation of new employment opportunities is expected to involve high training costs. Prospective employers expect labour poaching to occur, raising the price of scarce trained personnel and thereby reducing profits, competitiveness and productivity. There are also fears of substantial emigration of white citizens should the political or security situation, as perceived by those citizens, deteriorate seriously. So far there has been little evidence of such emigration occurring, but should it occur, it would have a sharp impact on the price of skilled labour. However, affecting this consideration is the argument that although there have always been skilled-labour shortages, production bottlenecks, and overpriced labour in some sectors, those factors have not discouraged transnational corporations from investing. Furthermore, because of its large poor population and relatively small industrial base, South Africa should offer opportunities for rapid growth in low-wage industries.

40. As for United States transnational corporations that have already disinvested from the South African economy, there are various reasons why their return may not be forthcoming, at least in the short term. First, approximately half of the United States companies that disinvested, and probably a higher proportion of transnationals from other countries, have retained non-equity ties with South Africa since disinvestment. Many find themselves content with such an arrangement, which provides income without the need for a permanent physical presence inside South Africa. Under current conditions of uncertainty, most would prefer to continue that arrangement rather than return to direct investment. Second, transnational corporations that have disinvested by selling their South African assets have effectively ceded their share of the South African market to some other presence. Recovering that market share through competition in the South African market would be a high-risk strategy. That issue is intertwined with another: the existence of buy-back options. It is not known how many disinvestment arrangements include clauses permitting the disinvesting transnational to repurchase assets and under what conditions, but one observer estimates that the proportion may be only 10 per cent. 14/ There is a perception that attempts to exercise those options might be met with hostility and resentment.

External constraints

41. Aside from domestic market considerations, there are a number of external constraints for potential foreign investors in South Africa. One such constraint for United States transnationals remains home country

anti-apartheid regulations. Although the United States federal Government has lifted the sanctions imposed by the Comprehensive Anti-Apartheid Act of 1986 many state and local government sanctions continue to operate. Many of the sanctions penalize companies by making them ineligible for lucrative local contracts if they invest in, or have non-equity ties with, South Africa. Ninety cities (including the 8 largest), 27 States and the United States Virgin Islands, and 25 counties all have laws or policies restricting business or investment ties to South Africa. 15/ As the Xerox Corporation explained to the Investor Responsibility Research Center (IRRC) in January 1991:

> "One of the important factors (in the company's decision to terminate the agreement), of course, was the recent passage of legislation in several U.S. cities that are customers of Xerox. The new legislation would restrict such customers from doing business with any company having even indirect South African connections, including distributorship such as Rank Xerox's (the British sister company that is 51 per cent owned by Xerox Corporation) with (the South African company) Fintech/Xeratech." 16/

42. The absence of similar state and local government regulation outside the United States accounts for the greater probability of non-United States transnationals actively pursuing new business opportunities in South Africa, as well as for the otherwise puzzling trade in South Africa in products made by some United States transnationals (including Apple Computer, Digital Equipment, Everex Systems, Informix, Microsoft and Wang Laboratories), none of which have either direct investments in or non-equity ties with South Africa, but whose products are readily obtainable there. The goods are being sold by foreign intermediaries and presumably at a substantial mark-up. Such a situation offers a good example of how and why moderately effective sanctions raise the prices of imports in the target country.

43. In the short term, state and local government sanctions seem likely to stay in place. IRRC reported in August 1991 that the mayors of New York and Los Angeles and various groups, including the United States Conference of Mayors and the bipartisan National Conference of State Legislatures, had all indicated that they intended to maintain sanctions in order to keep pressure on Pretoria and encourage the process towards the adoption of a new constitution. Most United States supporters of sanctions appear to take their cues on the issue from the African National Congress, so that it is unlikely that sanctions will be lifted until the Congress calls for such a step. The United States Assistant Secretary of State for African Affairs has suggested that the Department of Justice might look into "the legal implications of states and local governments carrying out their own foreign policy with respect to South Africa", 17/ in turn suggesting that the Department might bring a test case against a body not complying with the administration's request for sanctions to be lifted. However, the possibility of such an endeavour's actually producing any change seems remote.

44. For small and medium-sized United States companies, the lack of an agreement between South Africa and the United States Overseas Private

Investment Corporation (OPIC) is another element unfavourable to attracting investments by such companies. That government body provides assistance to United States companies operating in foreign countries, mainly by providing political risk insurance covering such matters as damage arising from political disturbances, nationalizations and difficulties with exchange rates and currency convertibility. 18/

45. Still another external constraint is the exclusion of South Africa from access to the International Monetary Fund (IMF). Transnational banks regard restored access as an important step in the rehabilitation of the South African economy. Although South Africa's level of international debt is now low (amounting to 24 per cent of gross domestic product) and the country does not necessarily need IMF funds, access to the Fund is important symbolically, for without South Africa's access to such funds foreign investors are not likely to provide the loans and investments that are necessary to create the 50,000 jobs per year needed just to keep pace with population growth.

C. The South African economy into the 1990s: an optimistic scenario for attracting transnational corporations

46. South Africa in undergoing a period of transition characterized by a liberalization of three interrelated processes, namely its political system, social system and economy. Those processes are interrelated since liberalization of South Africa's political system, with a democratic system as the expected outcome, is taking place from a position of unequal income distribution within the context of recessionary conditions and an underlying economic restructuring whose focus is dependence less on raw material exports and more on diverse manufacturing. (South Africa has not participated in the great expansion in world manufactured exports over the past few years.)

47. Given the deadline of early 1995 for a political transition, South Africa urgently needs a high growth rate. That need is particularly acute in view of the country's socio-economic inequalities and the demands that will be placed on the economy for education, housing and medical facilities. To sustain a high growth rate, the economy will need increased exports, as well as a higher rate of domestic savings.

48. At this time, there have been signs that the economy is emerging from recessionary conditions, as evidenced by increases in total public sector expenditure announced by the Government in August and September 1991 and a low level of inventories. Although recovery is expected to be mild, not exceeding 2 per cent in 1992 (a figure that, unfortunately, is significantly lower than the 5 per cent growth rate that the South African economy needs just to keep pace with population growth), the kick-start for the economy could come either from a rise in world commodity prices or from increases in manufactured exports.

49. As regards a rise in world commodity prices, there are various signs that a rise in the world price of gold and other precious metals may be

forthcoming. Adjusted for inflation, gold's benchmark price has fallen roughly to 1978 levels of about $350 an ounce. Moreover, estimates that the former USSR (now the Russian Federation) had been in possession of gold reserves (in excess of 1,200 tons) that may have potentially flooded world markets did not materialize. Recent estimates have placed the amount of Russian gold reserves at between 300 and 400 tons. In addition, gold-mines in that country have cut back production. In July 1991, the South African Chamber of Mines negotiated a "cooperation agreement" with the Russian Federation, a major competitor in the gold, platinum and diamond markets. 19/ According to the Chamber of Mines, the agreement effectively demolished the barriers that had been preventing the two leading producers from exchanging technology and expertise. An additional support in the price of gold may come from a change in the rules that govern Japanese non-life insurance companies' assets. Those companies may now hold up to 3 per cent of their assets in gold. Since they have assets of some 20 trillion yen ($138 billion), a change in the rules could increase demand for gold by around 350 tons, 20/ or 12.5 per cent of annual world production. The following analysis also sheds some light on the immediate-to-long-term prospects of the gold-mining industry in South Africa.

50. With gold at the benchmark price of $350 an ounce, nine of South Africa's operating mines, producing a total of 70 tons of gold a year, were not covering their working costs. 21/ A reduction of 70 tons represented about 12 per cent of South African production, which amounted to 2.5 per cent of world sales of 2,800 tons for 1990. If the price of gold remains at about the same level in the near future, that will probably mean that more of South Africa's marginal mines have become uneconomic, since South Africa is one of the highest-level gold producers in the world. 22/ In that event, assuming that no gold is released from monetary reserves, the world supply of gold might be cut by an additional 2.5 per cent for a total cut of 5 per cent, which in turn might trigger an increase in prices of the magnitude of 50 per cent, bringing the price of gold to about $500 an ounce and restoring profitability to South Africa's gold-mining industry. 23/ However, this might turn out to be a medium-term process. In such a context, it should be kept in mind that global gold output did not begin to rise rapidly until three to five years after gold prices peaked in 1980, owing to the lead-times necessary for exploration, licensing and development. Conversely, output probably bottoms out three to five years after gold prices. Whether one considers that prices have reached or have yet to reach bottom, for the immediate-to-medium-term future the South African economy seems to be in a phase of significant readjustment. In fact, the closure of mines like Stilfontein has been seen as a prerequisite for a turn around in the gold market. 24/

51. Although the foregoing analysis points to a rather optimistic scenario for the gold industry, at least in the medium term, the Government, having seen the changes inherent in overdependence on the exports of a single commodity, is now attempting to restructure the economy. Whereas the gold-mining industry was formerly the basis for South African economic and social development, its pre-eminent position in the economy is now seen rather differently. South Africa is still dependent, and will be for some years to come, on gold exports for its substantial balance-of-payments surplus.

However, the proportion of its contribution has been falling steadily and South African authorities wish the decline to continue. While gold traditionally accounted for more than 40 per cent of total merchandise export earnings, by 1990 the figure was down to 30 per cent (18 billion of 60 billion rand). 25/ Gold was expected to account for only about 27-28 per cent of exports in 1991 and, within two or three years, the figure could be closer to 20 per cent. The Government recognizes that a successful economy is likely to be characterized by a broad manufacturing base with a complex mixture of different industries that exploit comparative advantage.

52. Recognizing that over the last three decades South Africa has failed to raise exports as a percentage of gross domestic product, a team of economists, businessmen and academics has prepared a two-stage transition scenario for South Africa that puts emphasis on manufacturers' export-led growth. 26/ In the first stage, massive expense for housing, electrification, training and job creation for blacks would be incurred; in the second, radical reorientation of the South African economy towards more export-led growth of manufactures would take place. The effect, the team believes, would be 4 per cent growth in 1992, 5.5 per cent growth in 1993, 4.5 per cent growth in 1994 and 6 per cent growth in 1995.

53. Another aspect of the South African economy that requires consideration is the exchange rate. Figures for the real effective exchange rate of the commercial rand, and for the commercial rand exchange rate against the United States dollar, are set out in table 4. Those figures show that although the effective exchange rate appreciated slightly over the 12 months from 1 April 1990, the rate against the United States dollar fluctuated quite sharply. If the trend for the commercial rand exchange rate against the dollar is downward, as it has been, that development will have the effect of sustaining the rand income of the gold-mines, offsetting the fall in the price of gold, and will be similarly beneficial for South African exporters, making their goods and services more competitive in United States dollar trading areas.

54. In another significant development in exchange rates, the discount of the financial rand against the commercial rand has continued to narrow. From a high of nearly 53 per cent in 1986, it fell, with fluctuations, to 24 per cent in December 1990 and then fell further, to a mere 14.1 per cent in May 1991, its lowest level since the reintroduction of the dual exchange rate on 2 September 1985. Since the discount represents excess of financial rand supply (by those forsaking the South African economy) over financial rand demand (on the part of new investors entering that economy), it may be regarded as a crude index of disinvestment attitudes. 27/ The narrowing of the discount suggests that investor sentiment has been swinging in South Africa's direction, and such a swing accords with findings about bond issues on the private European markets. In the first nine months of 1991 the all-market share index of the Johannesburg stock exchange rose by 37.7 per cent in rand terms and by 50.6 per cent in dollar terms. As a result, the average dividend yield on industrial shares fell to 2.7 per cent. Thus, despite uncertainties, the South African economy does appear to have an

improved reputation as a high-yield investment haven for retail investors, although that reputation has not yet spread to the wholesale market, that is, to the major investment institutions, transnational corporations, commercial banks and international financial institutions in the public sector.

55. Fiscal measures announced by the Government in August and September 1991, low inventories and a favourable foreign reserves and balance-of-payments position all lend support to the possibility of a mild upturn soon in the country's economy, according to the South African Reserve Bank. 28/ In fact, on 31 October 1991 the Governor of the Bank stated that prospects for a revival in the South African economy had improved significantly in recent months and that the country could look forward to positive economic growth in 1992. 29/ This year, real growth in gross domestic product should amount to about 1-2 per cent following the decline of 0.5 per cent that had been anticipated in 1991.

56. One of the sources for stimulating an economy is the inflow of foreign capital. However, given the various constraints on prospective investment decisions by transnational corporations as outlined earlier, firms are not likely to enter or re-enter the economy at the same rapid pace at which they left it unless there are both constitutional changes and economic incentives.

57. On the positive side, although South Africa's high inflation rate acts as a deterrent to foreign investment, its interest rates of around 17 per cent are only two percentage points above its inflation rate of around 15 per cent. Moreover, for the past 2 1/2 years South Africa has been following a restrictive monetary policy with the aim of bringing down inflation. The biggest obstacle in the inflation battle has been the tendency for wages and salaries to outstrip productivity. However, as seen earlier, some progress has been made on this front, with aggregate wages having registered smaller increases in the first half of 1991 over 1990 and 1989. Also, the producer price index is now rising at a rate of between 10 and 12 per cent. That this figure is lower than the rate of increase of the consumer price index indicates that the latter should now also begin to decline. Moreover, over the past two years fiscal policy has been supportive of monetary policy, with government financing kept under control.

58. There are also aspects of the macroeconomic situation under post-apartheid conditions that form a basis for optimism. 30/ The removal of distortions produced by apartheid controls, particularly on labour and capital, will improve productivity growth. Resources will be freed for more efficient use. Government expenditures on the paraphernalia of apartheid will decline and eventually disappear, generating savings in public expenditure that can be more beneficially employed for other purposes. The disappearance of sanctions, and the elimination of government controls and interventionist policies designed to combat them, will improve South Africa's competitiveness by lowering import prices generally, raising the prices of some exports and lowering government costs.

59. The balance-of-payments position of South Africa is also strong. With a small foreign debt in relation to its gross domestic product (the former amounting to 24 per cent of the latter) and no difficulty in securing that debt, South Africa has been running a current account surplus of more than 5 billion rand per year over the past five years and its capital outflows have declined.

60. As South Africa's debt position has improved, it has been able to make a tentative return to international capital markets. Current figures for this development are set out in table 7. Until August 1991, such new foreign borrowing as occurred had been on the private bond market, that is, where bond issues are sold to private clients - usually wealthy individuals or private trusts. The arrangements for those transactions had been made in Germany and Switzerland. To date there has been no evidence of any major investors, such as insurance companies or public trust funds, purchasing South African paper. However, on 19 September 1991 the South African Government returned to the international bond market with a DM 300 (300 million deutsche mark) issue of five-year securities at 10.5 per cent launched at par, offering a yield 1.75 per cent over German government bonds. The issue was managed by a syndicate of mainly German banks, led by Deutsche Bank, and the market was dominated by retail investors in Germany, Switzerland and the Benelux countries, though both Paribas and Kleinwort-Benson did report some institutional investment interest. The launch was so successful that it was increased to DM 400 million in the course of the day, was fully subscribed and closed at 100.75. Further excursions into the international bond market are now planned.

61. The recent success of South Africa's deutsche mark loan issue would indicate that some investors are beginning to take a longer-term view of the country. In October 1991, it was reported that the Independent Development Trust, a non-profit health, education and housing trust established by the Government, was planning to launch a $200 million Eurobond lead managed by J. P. Morgan. 31/ South Africa is hoping to expand its activities in the international capital markets this year, with five new borrowers planning to launch public bond issues. These are: TRANSNET, the transportation group; ESKOM, the electricity supply company; the Post Office; the Industrial Development Corporation; and the Development Bank of Southern Africa. 32/

62. If the political progress to be made in South Africa over the next few months allows it to have access to the IMF, such an arrangement would have an important psychological impact on prospective investors and lenders to South Africa. At present, South Africa, even if eligible, would not qualify for International Monetary Fund assistance because of the strength of its balance-of-payments position.

63. Another incentive for transnational corporations is related to data's demonstrating increases in the recent trade of South Africa with its African partners (as shown in table 2). Those data indicate that prospective foreign investors in South Africa should also take into account the country's potential to produce not only for the domestic market but for the region as a whole.

Table 7. Real borrowing on international capital markets, South Africa, 1982-1991

(Millions of 1981 US dollars) a/

	Public bonds	Private bonds	Syndicated bank loans	Total gross debt inflows
1982	163	164	1 485	1 812
1983	250	221	785	1 256
1984	550	465	432	1 447
1985	464	301	0	765
1986	0	0	0	0
1987	0	0	0	0
1988	0	31	0	31
1989	0	105	0	105
1990	0	209	0	209
1991 b/	0	242	46	288

Source: Jonathan Garner and Jonathan Leape, "South Africa's borrowings on international capital markets: recent developments in historical perspective", Centre for the Study of the South African Economy and International Finance, research paper No. 5, London School of Economics, 1991, p. 6.

a/ Original currency amounts are converted into dollars at launch exchange rates and then further converted into 1982 dollars by adjusting for inflation.

b/ January to August inclusive.

64. Many observers envision South Africa's becoming the engine for growth in the whole of southern Africa. Certainly there are grounds for such a view. The South African economy has a developed infrastructure that, after further deregulation and liberalization, offers prospects of efficient operation. The country has efficient financial institutions and a great deal of experience in management, engineering, accountancy and legal procedure. Bottlenecks produced by shortages in the supply of trained personnel in those fields will, in the short term, distort and slow the rate of growth that might otherwise be

achieved, but the experience and basic institutions are *in situ* to a much greater degree than in any other African country south of the Sahara.

65. To attract transnational corporations the Government could offer various incentives, including enterprise investment zones, public sector contracts for the supply of both goods and services - particularly in housing, health, education and new infrastructure - and joint partnership projects through international agencies. Investment guarantees would also encourage some transnationals to establish a presence in South Africa. Similarly, tax incentives and tax policies designed to encourage investment would stimulate growth in employment.

D. Role of transnational corporations in employment and education of black South Africans

66. In its resolution 46/79 A of 13 December 1991, the General Assembly urged the Secretary-General, at the appropriate time, in the light of positive developments such as agreement on transitional arrangements, to expand, in a concerted manner, through the relevant United Nations offices and in collaboration with the specialized agencies, the scope of assistance provided inside South Africa aimed at addressing socio-economic issues, particularly in the areas of education, health, housing and social welfare, which might entail the physical presence of the United Nations system in that country.

67. Given the wide socio-economic inequalities existing in South Africa, the question arises as to what transnational corporations might be reasonably expected to contribute towards their long-term resolution. Clearly there is a substantial contribution to be made in employment and training. The first requirement for the new South Africa is high rates of employment growth, leading to a much larger workforce and a wider spread of disposable income. In the medium term, transnational corporations could make no greater contribution to the future welfare of all South Africans than by investing in new productive capacity with a high employment quotient and paying fair wages that raise standards of living.

68. Greater investment, leading to high rates of growth, would increase welfare generally and generate higher tax revenues that would better enable the Government to grapple with social problems. If a virtuous circle of investment leading to growth, to high demand and to further investment can be established, then it is reasonable to assume that many transnational corporations will be eager to participate.

69. In an effort to identify and coordinate strategies to strengthen and expand the human resource capacity of black South Africans, public and private institutions within and outside South Africa, multilateral organizations and political leaders have highlighted education and training as a prime target.

70. Although South Africa faces many of the human resource development problems of developing countries, its case is unique. Human resource

development, which is instrumental in socio-economic development, is crucial in South Africa not only for its role in long-term structural transformation and the elimination of racial imbalances, but also for its involvement in short-term political stability. Therefore, the goals of human resource development in South Africa are both more insistent and more urgent than elsewhere. 33/

71. In 1991 various expert groups prepared comprehensive studies on the educational and training needs of a post-apartheid South Africa. In identifying suitable assistance programmes, a distinction was made between (a) long-term education and training needs for easing the constraints that the old apartheid structures continued to impose on a future democratic political system as well as on socio-economic development and (b) short-term action required in a transition period. It is not easy to draw a line between programmes in the transition period and those that will have to be developed in the post-apartheid era. Nevertheless, a distinction is necessary, because it is not possible to engage immediately and simultaneously in massive education and training programmes in all fields. 34/

72. The mobilization of the international community, of public funding sources and especially of private sector support to secure the resources necessary to meet educational requirements is deemed necessary. 35/

73. There is considerable agreement among the National Manpower Commission, the Congress of South African Trade Unions, the African National Congress and the corporate sector that the future development of the economy will crucially depend on training policies that increase the number of skilled industrial workers and eliminate present skill shortages. In order to facilitate manufacturing growth, there is a need for technical and apprenticeship training, especially at the middle-technician level. Existing training structures are totally insufficient to handle training needs.

74. There is also a consensus that large-scale resources need to be invested and coordinated in education and training, accompanied by a process of equalization of the opportunities for black South Africans. 36/

75. Mapped out as immediate priorities in the transition period are training activities for black people that are strategically relevant to social transformation, namely occupational and managerial positions which will play a crucial role in transforming and replacing the existing central and local government structures. Other priority areas identified for support during the transition period that would strengthen the human resource capacities within the black community are teacher training, capacity-building in general development strategies and options, social and economic reconstruction, training in vocational and technical skills, public and private business management and support to small- and medium-scale enterprise promotion and development.

76. The former Secretary-General has observed that the problems facing the majority of South Africans are so vast that they require a comprehensive

national programme of redress (see document A/45/1052, para. 10). In the field of education alone, the South African Institute of Race Relations has calculated that 40 per cent of the state budget would be consumed if the level of black education were raised to that available to whites. 37/

77. Given the reality of limited resources, most South Africans believe that in the post-apartheid era the State and the educational infrastructure should highlight primary education, technical training and literacy. However, while emphasis has to be put on primary education in the long run, high-level skills development at the tertiary level to foster the economy is crucial in the short run. 38/ Community leaders, trade unions and the business community strongly argue for technical education and skills as a prime focus. In 1990, 90 per cent of skilled positions were held by whites and only 4 per cent by coloureds and black South Africans. 39/

78. While the main responsibility for the education and advancement of the black population will remain with the Government, additional expenditure on upgrading of technology and training for new skills will have to be supported by the private sector. 40/ In this context a number of occupations that face persistent labour shortages, such as engineering, information technology, key scientific professions, management and accountancy, are highlighted.

79. The corporate sector in South Africa has played a significant role in the provision of education and training in that country. Corporate sector support has been instrumental in teacher training and upgrading, adult basic education and continuing education programmes. 41/ Many transnationals operate in-service training, private training centres and schemes run by employer associations. Corporate initiative in in-service training attempts to redress the unequal distribution of jobs between black and white employees in skilled work and supervisory/management positions.

80. A growth in corporate programmes for "black advancement" seems to confirm the tendency by corporations to see training as an integral part of their business rather than as an extension of social responsibility. The private sector has an interest in the reconstruction of education and training, and a number of corporations are contributing substantial funds to related programmes. Experience with the European Community Code of Conduct for Companies with Subsidiaries, Branches or Representation in South Africa and the Statement of Principles (formerly the Sullivan Principles) provides an important precedent for the development of new voluntary measures to encourage companies to accelerate the pace of change in the field of education and training. 42/

81. The relatively small number of black South Africans employed in transnational corporations currently operating in South Africa, indicates that on-the-job training opportunities are limited. Corporations, however, have the insight and financial capacity to shape and support job-related training. Transnational corporations can provide crucial linkages between occupational skill requirements and the training offered in formal institutions. Aside from establishing training institutions, transnational corporations can play a

significant role in coordinating school- and enterprise-level training to provide black trainees with a general knowledge of science and technology, as well as an applied understanding of industry. Long-term training programmes for particular occupational groups linked with work experience attachments in the private sector can be provided through bursaries targeted at key professions within the private sector or through internships and apprenticeships within a particular corporation.

82. Transnational corporations are expected to continue their financial support for specialized intensive training courses, especially for leadership skills, and to encourage training of employees that emphasizes problem-solving, a willingness to learn and financial support to workers interested in training and advancement.

83. To redress past discrimination against black employees and to ensure an adequate number of the skilled personnel required in the South African economy, the current system of vocational training, at both the national and corporate levels, will require financial and technical assistance from transnational corporations. The organization, content and distribution of vocational and skills training is permeated by racial inequalities closely correlated with social class differences. There is a large imbalance in both the relative and absolute numbers of whites and blacks receiving skills training, and there are great disparities in the capacities of the institutions for the different racial groups. Training institutions for blacks are generally ill equipped, and their courses offer a narrow spectrum of subjects. In an effort to overcome the shortage of training facilities, corporations have become active in establishing or contributing to technical training facilities for black people.

84. Transnational corporations are also in a unique position to assist and reform the educational system. Aside from providing financial support that is needed for preschool and primary education, transnational corporations have highly qualified staff who can lend guidance in career counselling, particularly in black primary and secondary schools.

85. Besides improvement of black education and training, policymakers also advocate formal job creation strategies. The development of small-, medium- and large-scale black enterprises will offer an important channel for possible job creation and economic growth. The removal of legal restrictions on commercial enterprises owned by black people has seen the emergence of a small but growing black entrepreneurial class. In an attempt to support this development, some transnational corporations have encouraged the purchase of products and services from black businesses. Subcontracting arrangements offer a unique opportunity for large companies to transfer skills in quality improvement, technical upgrading and management to black suppliers. So far, however, the National African Federated Chamber of Commerce (NAFCOC) estimates that the formal black business sector contributes only about 1 per cent to the South African gross domestic product. 43/

86. A major element of corporate community programmes instituted by large corporations has been support to indigenous black businesses. Transnational corporations have been large contributors to support programmes for the development of black enterprises in South Africa. Aside from providing individual assistance in overcoming the problems of unavailability of capital for small African businesses and lack of business expertise, various corporations have successfully entered into subcontracting and licensing agreements with black enterprises in sectors related to the automotive industry. Spokespersons for the black business community are promoting greater black participation in large corporations on a partnership and joint venture basis. 44/ Since black business development is considered one key area in the transition period, it would be instructive to undertake a comprehensive feasibility study on the skills and technical and managerial requirements of potential black entrepreneurs and on the ways in which nascent entrepreneurs could benefit from linkages with transnational corporations.

Notes

1/ Charles M. Becker and others, The Impact of Sanctions on South Africa, Part I, The Economy (Washington, D.C., Investor Responsibility Research Center (IRRC), March 1990, p. 36.

2/ A/45/539, p. 30, and Stephen R. Lewis, Jr., The Economics of Apartheid (New York, Council on Foreign Relations, 1990), p. 127.

3/ The Economist, 17 February 1990, p. 43.

4/ Shipping Research Bureau, Newsletter on the Oil Embargo against South Africa (Amsterdam), No. 24 (third quarter 1991), p. 4.

5/ Centre Against Apartheid of the United Nations Secretariat, "Assessment of the current political situation in South Africa", working paper, 11 March 1991, p. 11.

6/ Ibid., p. 10.

7/ Investor Responsibility Research Center, U.S. Business in South Africa, 1991 (Washington, D.C., 1991).

8/ Business Day, 17 March 1991.

9/ The South African Reserve Bank offers almost no statistical guidance on unemployment in issues of its Quarterly Bulletin.

10/ See the summary discussion in Francis Wilson and Mamphela Ramphele, Uprooting Poverty, The South African Challenge, report for the second Carnegie inquiry into poverty and development in Southern Africa (New York, W. W. Norton, 1989), pp. 84-93 and 234-249.

Notes (continued)

11/ Keith Ovenden and Tony Cole, Apartheid and International Finance: A Programme for Change (Melbourne and London, Penguin, 1989), p. 52. Wilson and Ramphele, op. cit., p. 249, estimate that even with a year-by-year growth rate of 3 per cent, black unemployment in the formal sector of the economy will be approximately 44 per cent and number 7.9 million people by the year 2000.

12/ Financial Times, 10 February 1991.

13/ Jennifer Kibbe, U.S. Business in Post-Sanctions South Africa: The Road Ahead (Washington, D.C., IRRC, August 1991), p. 8. This is not to say that transnational corporations are not perfectly happy to do business in countries with authoritarian and repressive regimes - clearly, many are. It is the current state of uncertainty that is likely to make those corporations delay decision-making on new investment.

14/ Ibid., p. 19. The estimate is based on figures supplied by the Office of Foreign Assets Control of the United States Treasury.

15/ A Guide to American State and Local Laws on South Africa, William F. Moses, ed. (Washington, D.C., IRRC, 1991).

16/ IRRC news release, 21 March 1991.

17/ Ibid., 21 August 1991.

18/ Ibid., p. 11. Large United States transnationals have no need of OPIC arrangements.

19/ The Wall Street Journal, 29 July 1991.

20/ The Economist, 2 December 1989, p. 90.

21/ Financial Times, 29 October 1991.

22/ In economic theory, the equilibrium price for any commodity is that which provides marginal producers with enough profit to continue operations. Marginal producers are those who are at the edge of profitability. As is the case with all goods, in the long run production costs of marginal producers are the only costs that enter into the calculation of equilibrium price. The equilibrium price is set by the costs of output of marginal primary producers.

23/ Decreasing the supply of any good by 5 per cent tends to result in a price increase of some multiple of the supply decrease. Conversely, increasing demand for anything by 5 per cent (given a constant supply) might result in prices being bid up by 20 to 30 per cent or more. For example, during the 1990 Gulf war, the supply of oil was cut by some 5 per cent but prices rose by at least 50 per cent.

Notes (continued)

24/ Ian Lager and Martin Nicol, "Gold-mining in South Africa: Priorities for restructuring", Economic Trends Group working paper No. 1, p. 6.

25/ Economist Intelligence Unit, 1991-1992, Country Profile: South Africa, p. 30.

26/ "Dark visions in a crystal ball", Financial Times, 19 August 1991.

27/ Ovenden and Cole, op. cit., p. 114.

28/ Financial Times, 27 September 1991.

29/ Quoted in Financial Times, 1 November 1991.

30/ See the discussion in Lewis, op. cit., pp. 144-168.

31/ Financial Times, 31 October 1991.

32/ Ibid.

33/ "Beyond apartheid: Human resources in a new South Africa", report of a Commonwealth Expert Group prepared for the Heads of Government Meeting at Harare, 1991, p. 8.

34/ Ibid., p. 49.

35/ "Report of the International Conference on the Educational Needs of the Victims of Apartheid in South Africa, held at UNESCO House, Paris, from 25 to 27 June 1991" (A/AC.115/L.678), p. 19.

36/ "Beyond apartheid: human resources in a new South Africa", op. cit., p. 72.

37/ The New York Times, 7 January 1992.

38/ William F. Moses and Meg Voorhees, Corporate Responsibility in a Changing South Africa (Washington, D.C., IRRC, October 1991), p. 39.

39/ South African Institute of Race Relations, Race Relations Survey, 1989/90 (Johannesburg), p. 657.

40/ "Beyond apartheid: human resources in a new South Africa", op. cit., p. 18.

41/ Ibid., p. 39.

Notes (continued)

42/ Ibid., p. 82.

43/ South African Institute of Race Relations, op. cit., p. 608.

44/ Financial Mail, October 1991, p. 50.